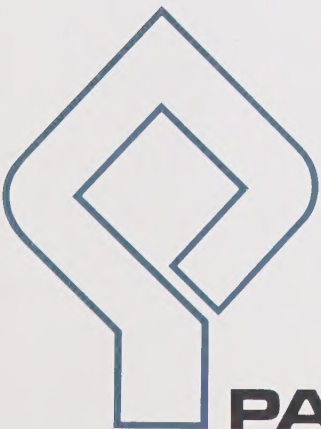


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1972

ANNUAL REPORT

PARAGON PROPERTIES LIMITED



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report to shareholders

report

To shareholders

This past year was unlike any in Paragon's four year history as a public company. It was a year of considerable achievement offset by disappointment. It was a year when your Company recorded its first loss, but it was also a year for Paragon to make advances over a broad horizon of activities designed to solidify our growth position for the future.

Faced with a continued cash drain on working capital and the considerable equity requirements of the Company, the Board of Directors considered it prudent to sell Place Concorde. The energies of Management can now be rechannelled into more productive areas.

Excluding the write-off attributable to Place Concorde, net earnings were about \$89,840 or ten (10¢) cents per share and cash flow from operations was \$205,000 or twenty-two (22¢) cents per share.

Paragon's present emphasis is directed toward land assembly and development, single family housing, motor hotels, shopping centres and projects in the commercial and industrial field. The financial capacity of the Company to initiate and sustain such programs has been assured by bank accommodations on favourable terms, by the freeing of equities through the sale of Place Concorde, by recent sale of buildings and by the conclusion of joint ventures.

Paragon has commenced a program of development and sale of product through joint ventures and realty syndications. To this end the Company has, since year end, concluded a form of participating sale of Hull Estates (a major apartment and townhouse project) with an American Investment group and a joint venture for the development of an industrial park in Edmonton with a European merchant banker.

With respect to the Company's established programs, satisfactory progress is being made in apartment buildings, mobile home parks, social housing, and Consulting and Contract Management.

Last year, we gained a foothold in the development of shopping centres and the Company expects to broaden this involvement in 1973. Subject to various approvals, Paragon will soon start Westgate Market Mall in Edmonton, a shopping centre containing approximately 220,000 sq. ft. with K-Mart as the anchor tenant.

Through its subsidiary Paragon Leaseholds Limited, the Company has initiated a separate profit centre for industrial development and expects this to be one of the chief activities in Paragon's program of diversification.

Paragon Homes Limited is the Company's subsidiary acting in the single family housing field while Paragon Properties (Northern) Limited is the subsidiary responsible for all development activity in Edmonton and Northern Alberta.

Paragon's social housing operations expanded in Manitoba and Ontario by the negotiation of new contracts in 1972. It is anticipated that the Company's involvements in these geographic areas will lead to further development and market penetration.

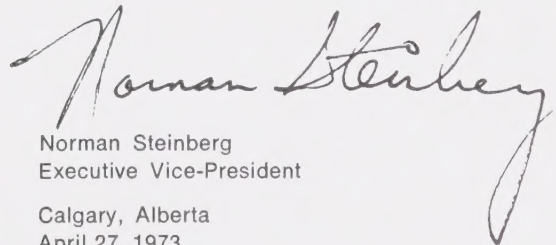
It is with deep regret that your Board of Directors in January of 1973 recorded the passing of Mr. R. K. McConnell, who was a founding Director of the Company. Mr. McConnell made a most valued contribution and became a loyal friend both to his fellow Board members and to Management. He will be sorely missed.

We express our gratitude to all the officers, department heads, and executive personnel of Paragon, as well as their supporting staff whose dedication and ability represent, though unrecorded on the balance sheet, our most important asset.

On Behalf of the Board of Directors



Charles G. Smith, Q.C.
President



Norman Steinberg
Executive Vice-President

Calgary, Alberta
April 27, 1973

Financial statements

PARAGON PROPERTIES LIMITED

and Subsidiary Companies

consolidated financial statements

CONSOLIDATED BALANCE SHEET AS AT NOVEMBER 30, 1972

ASSETS

	1972	1971
CASH	\$ —	\$ 611,436
ACCOUNTS RECEIVABLE	1,246,201	1,228,052
PREPAID EXPENSES AND SUNDRY ASSETS	319,654	144,919
MORTGAGES AND AGREEMENTS FOR SALE RECEIVABLE	515,288	307,494
REVENUE-PRODUCING PROPERTIES, at cost less accumulated depreciation of \$98,136; 1971 - \$48,240 (Note 1)	6,335,400	3,596,241
PROPERTIES UNDER DEVELOPMENT, at cost (Note 1)	6,761,434	14,117,570
LAND ACQUIRED FOR DEVELOPMENT, at cost (Note 1)	3,555,956	1,960,636
CONTRACTING AND OFFICE EQUIPMENT, at cost less accumulated depreciation of \$187,968; 1971 - \$152,650	97,410	102,561

See accompanying notes.

Approved on behalf of the Board of Directors:

CHARLES G. SMITH, Q.C.

Director

NORMAN STEINBERG

Director

\$18,831,343

\$22,068,909

LIABILITIES	1972	1971
BANK INDEBTEDNESS (Note 2)	\$ 734,118	\$ 254,503
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	2,916,658	1,693,234
MORTGAGES AND AGREEMENTS FOR SALE PAYABLE ON REVENUE-PRODUCING PROPERTIES (Note 3)	5,265,471	2,970,326
MORTGAGES, AGREEMENTS FOR SALE AND BANK ADVANCES ON PROPERTIES UNDER DEVELOPMENT (Note 3)	4,125,816	10,772,742
AGREEMENTS FOR SALE PAYABLE AND BANK ADVANCES ON LAND ACQUIRED FOR DEVELOPMENT (Note 3)	2,310,174	1,453,276
8% SINKING FUND DEBENTURE SERIES A (Note 4)	1,547,500	1,731,500
DEFERRED INCOME TAXES	537,861	1,090,103
	<u>17,437,598</u>	<u>19,965,684</u>
SHAREHOLDERS' EQUITY		
CAPITAL:		
Authorized:		
2,600,000 common shares without nominal or par value		
Issued:		
947,942 common shares	969,844	969,844
RETAINED EARNINGS	423,901	1,133,381
	<u>1,393,745</u>	<u>2,103,225</u>
	<u>\$18,831,343</u>	<u>\$22,068,909</u>

PARAGON PROPERTIES LIMITED
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED NOVEMBER 30, 1972**

REVENUE

Sale of properties	\$ 2,435,945	\$ 7,788,452
Mobile home sales	536,722	—
Construction contracts	3,103,182	2,213,311
Rental income	847,457	603,791
Consulting and contract management	144,738	256,173
Property management	27,273	41,626
Other	66,154	52,265

7,161,471

10,955,618

OPERATING EXPENSES

Cost of properties sold	2,155,928	6,639,184
Cost of mobile homes sold	514,055	—
Construction contracts	2,730,016	1,933,311
Rental properties	1,069,556	939,021
Administrative and general (Notes 1 and 7)	486,878	411,003

6,956,433

9,922,519

OPERATING INCOME BEFORE THE FOLLOWING

205,038

1,033,099

Provision for depreciation

65,702

41,547

139,336

991,552

Loss on sale of Place Concorde (Note 8)

1,258,867

—

(1,119,531)

991,552

Provision for deferred income taxes (recovery)

(552,242)

476,328

NET EARNINGS (LOSS) FOR THE YEAR

\$ (567,289)

\$ 515,224

EARNINGS (LOSS) PER SHARE

\$ (.60)

\$.54

CASH FLOW (DEFICIENCY) PER SHARE*

\$ (1.11)

\$ 1.09

* Earnings (loss) per share before depreciation and deferred income taxes (recovery)

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED NOVEMBER 30, 1972**

RETAINED EARNINGS AT BEGINNING OF YEAR

\$ 1,133,381

\$ 760,348

NET EARNINGS (LOSS) FOR THE YEAR

(567,289)

515,224

566,092

1,275,572

DIVIDENDS

142,191

142,191

RETAINED EARNINGS AT END OF YEAR

\$ 423,901

\$ 1,133,381

See accompanying notes.

PARAGON PROPERTIES LIMITED
and Subsidiary Companies

**CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH
FOR THE YEAR ENDED NOVEMBER 30, 1972**

SOURCE OF CASH

	1972	1971
Property sales	\$12,081,290	\$ 7,788,452
Proceeds from mortgages, net of repayments	5,800,670	8,494,184
Construction revenue	3,103,182	2,213,311
Consulting and Contract Management revenue	144,738	256,173
Property management and other income	93,427	93,891
Mobile home sales, net	22,667	—
Increase in accounts payable	1,203,424	—
Increase in bank indebtedness	479,615	—
Decrease in accounts receivable	1,851	—
	<u>22,930,864</u>	<u>18,846,011</u>

USE OF CASH

Mortgages assumed by purchasers	9,295,553	5,966,096
Rental property operations, net	648,997	335,230
Administrative and general expenses	480,878	411,003
Redemption of 8% debentures	184,000	127,500
Payment of dividends	142,191	142,191
Other	377,378	144,689
Increase in accounts receivable	—	885,147
Reduction of bank indebtedness	—	677,834
Reduction of accounts payable	—	212,044
	<u>11,134,997</u>	<u>8,901,734</u>

CASH AVAILABLE FOR THE YEAR	<u>\$11,795,867</u>	<u>\$ 9,944,277</u>
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INVESTED AS FOLLOWS

Acquisition and development of properties	\$ 9,677,287	\$ 7,826,034
Construction costs	2,730,016	1,933,311
Increase (decrease) in cash	(611,436)	184,932
	<u>\$11,795,867</u>	<u>\$ 9,944,277</u>

See accompanying notes.

PARAGON PROPERTIES LIMITED

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED NOVEMBER 30, 1972

1. ACCOUNTING POLICIES:

(a) General:

The accounting policies followed by the Company are in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies (CIPREC).

(b) Consolidation:

The consolidated financial statements include:

(i) The proportionate share of the assets and liabilities of the Company's two 80% owned subsidiaries whose activities are still in the development stage.

(ii) The proportionate share of the assets, liabilities, income and expenses pertaining to the Company's interest in joint ventures with others.

(c) Depreciation:

The Company records depreciation on revenue-producing properties on a 5%, 50 year sinking fund basis. Contracting and office equipment are depreciated over their estimated useful life on a diminishing balance basis.

(d) Income Recognition:

(i) Sale of Land and Buildings:

Income is recognized after all material conditions of the transaction have been fulfilled and a substantial portion of the Company's equity in the property has been received.

(ii) Construction Contracts:

Income from real estate constructed under contract is accounted for in accordance with the percentage of completion method commencing at the point that the contract is 70% complete. When the Company both develops and constructs projects for others, a certain percentage of the profit as it relates to the development portion of the project may be recognized at the point of commencement of construction.

(iii) Rental Income:

Rental costs and applicable overhead, net of rental income, are added to the cost of construction until a project has reached its cash flow break-even point, subject to certain maximum time limits.

(e) Carrying Charges:

Carrying costs and applicable overhead are added to properties under development and land acquired for development. During the year these costs amounted to \$533,579.

2. BANK INDEBTEDNESS:

Bank indebtedness is secured by a general assignment of book debts.

3. MORTGAGES, AGREEMENTS FOR SALE AND BANK ADVANCES:

	Revenue Producing Properties	Properties Under Development	Land Acquired For Development
Mortgages	\$ 5,265,471	\$ 2,025,816	\$ 706,000
Agreements for sale	—	—	1,439,394
Bank advances	—	2,100,000	164,780
	<u>\$ 5,265,471</u>	<u>\$ 4,125,816</u>	<u>\$ 2,310,174</u>

Duplicate Certificates of Title and assignment of specific mortgage proceeds for certain properties have been lodged as security for bank advances. As construction progresses on properties under development an additional amount of approximately \$6,916,000 will be received on mortgages. Interest rates range from 6% to 10 7/8%, the weighted average rate being 8.8%. The repayment schedule of bank advances, agreements for sale and mortgages is approximately as follows:

Year ending November 30, 1973	\$ 3,739,869
1974	262,295
1975	494,811
1976	318,737
1977	1,353,701
Subsequent to November 30, 1977	11,021,401
	<u>17,190,814</u>
Mortgages on properties sold subsequent to the year end	1,427,187
	<u>\$18,618,001</u>

Mortgages on properties under development and land acquired for development will be discharged out of the proceeds of first mortgage financing relative to construction of revenue-producing properties. It is expected that construction will commence prior to the maturity dates of such mortgages. To the extent that such mortgages mature prior to the date of commencement of construction these mortgages may be renewed or replaced at the then current rates of interest. With respect to revenue-producing properties it is the opinion of management that these mortgages may be renewed or replaced upon maturity at the then current rates of interest.

PARAGON PROPERTIES LIMITED

and Subsidiary Companies

4. 8% SINKING FUND DEBENTURES — SERIES A:

The Series A debentures mature on February 15, 1979, and are redeemable otherwise than out of sinking fund monies at the Company's option on thirty days notice at 102% of principal if redeemed on or before February 15, 1977, and 100% of principal if redeemed thereafter and prior to maturity in either case plus accrued interest to the date specified for redemption.

Under the terms of the trust indenture, the Company is required to establish a sinking fund in such amounts as shall be sufficient to retire on February 15 in each of the following years the principal amount of the Series A debentures set out opposite each such year:

1973	\$165,000
1974	180,000
1975	195,000
1976	210,000
1977	225,000
1978	245,000

The above sinking fund payments, together with the payment of \$490,000 at maturity, will be sufficient to retire the Series A debentures in full.

Under the terms of the trust indenture the Company may purchase debentures on the open market for cancellation. To date the Company has purchased sufficient debentures for cancellation to satisfy the 1973 sinking fund requirements.

5. LEASE COMMITMENTS:

The Company is lessee of lands, upon which it is constructing certain improvements, which bear an annual rental payment of \$74,400 for a term of 99 years, subject to an increase after the initial 30 years to a rate based on a fixed percentage of the fair market value of the land. The Company realized a gain of \$329,000 in 1972 on the sale of this land at fair market value. Subsequent to November 30, 1972, the Company has entered into an agreement to sell the improvements being constructed on the lands to a third party.

6. CONTINGENT LIABILITIES:

- The Company has a continuing guarantee to the purchasers of certain revenue-producing properties of income aggregating \$447,450 over a remaining two year period.
- In consideration of obtaining certain construction contracts, the Company has guaranteed certain payments on two first mortgages payable by others in the aggregate amount of \$3,320,000. In the event that the Company is called upon under such guarantees, then the Company ultimately has a right to obtain an assignment of the securities held by the mortgagees. At April 11, 1973, and arising subsequent to November 30, 1972, payments on one of the first mortgages payable was in arrears by the mortgagor in the amount of \$35,284. In the opinion of management these arrears will not have to be paid by the Company.
- The Company is contingently liable to a maximum of \$2,795,509 with respect to those portions of mortgages on joint-venture undertakings that are payable by the Company's co-venturers. However, the Company has recourse against the assets of the other participants to the extent it may be called upon to pay a liability in excess of its proportionate share. At November 30, 1972 the relevant share of such assets at cost amounted to \$3,823,904.
- The Company is contingently liable with respect to notes receivable discounted in the mobile home division in the amount of \$296,320. However, the co-venturer has agreed to indemnify the Company against any losses.

7. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS:

In 1972, fees paid to directors aggregated \$8,200 (1971 - \$9,500) and direct remuneration of senior officers was \$128,500 (1971 - \$100,540). There were two senior officers who received \$2,400 (1971 - three senior officers received \$3,900) as directors.

8. LOSS ON SALE OF PLACE CONCORDE:

This consists of the following:

Selling price	\$ 9,645,345
Cost of property	10,477,314
Loss on sale	831,969
Guarantee to purchaser of income level, May 1, 1972 to January 15, 1973 (expiry date of income level guarantee)	426,898
	<u>\$ 1,258,867</u>

The Company has received from the purchaser, based on an agreement as of May 1, 1972 and amended as of January 15, 1973, a non-interest bearing purchase mortgage receivable. The final amount of this mortgage is determinable in accordance with a cash flow formula applicable to the period July 1, 1974 to June 30, 1975 to be adjusted by operating results as defined in the sale agreement to a maximum of \$492,500. Conversely, based on the same formula, the Company may be liable to the purchaser to a maximum amount of \$150,000.

Because the ultimate realization or liability, if any, is not presently determinable, no portion of the purchase mortgage receivable nor any potential liability has been reflected in these financial statements.

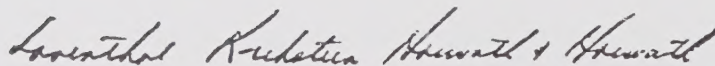
9. The 1971 financial statements, which have been presented for comparative purposes only, were reported on by another firm of Chartered Accountants.

auditors' report

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Paragon Properties Limited and its subsidiaries as at November 30, 1972 and the consolidated statements of earnings, retained earnings and source and use of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1972 and the results of their operations and the source and use of their cash for the year then ended in accordance with generally accepted principles applied on a basis consistent with that of the preceeding year.



LAVENTHOL KREKSTEIN
HORWATH & HORWATH
CHARTERED ACCOUNTANTS

Calgary, Alberta
April 11, 1973

directors

The Hon. Colin Campbell McLaurin, Q.C., LL.D., Chairman of the Board, retired in 1968 as Chief Justice of the Trial Division of the Supreme Court of Alberta. Mr. McLaurin, Chancellor Emeritus of the University of Calgary, is associated with the legal firm of Howard, Moore, Dixon, Mackie & Forsyth.

Charles Gerald Smith, Q.C., President of Paragon Properties Limited, is a member of the bars of Manitoba and Alberta. Prior to moving to Calgary in 1957 he practised law with the Winnipeg firms of Harvey & Smith and Smith & Diamond and was principal shareholder and president of the development firm of Commercial Construction (Calgary) Limited. He is a member of a number of civic committees, and national and international groups concerned with urban development and planning. Mr. Smith was appointed a Queen's Counsel in 1969.

Norman Steinberg, Executive Vice-President of Paragon Properties Limited, was enrolled at the University of Toronto School of Architecture and attended the Faculty of Arts at the University of Alberta before entering business as an executive of a regional furniture company. Prior to joining Paragon, he was active in real estate and development fields as president of Excelsior Investment Corporation Ltd.

The Hon. E. Davie Fulton, P.C., Q.C., LL.D., of Vancouver, is General Counsel for the Company's operations in British Columbia. Mr. Fulton served as Member of Parliament for Kamloops from 1945 to 1963 and 1965 to 1968. His public service included federal appointments as Minister of Justice and Attorney-General from 1957 to 1962, and as Minister of Public Works from 1962 to 1963. Mr. Fulton is a partner of the legal firm of Fulton, Cumming, Bird, Richards of Vancouver and currently is Chairman of The Law Reform Commission of British Columbia. He is a director of Crestwood Kitchens Limited, Eddy Match Company Limited, the Merit Insurance Company, Guaranty Trust Co. of Canada, Sovereign Life Assurance Company of Canada and Canadian Reserve Oil and Gas Ltd.

The Hon. Harry William Hays, P.C., of Calgary, was appointed to the Senate of Canada in 1966. Senator Hays served as Mayor of Calgary from 1959 to 1963 after which he was elected Member of Parliament for Calgary South and was named Federal Minister of Agriculture. Senator Hays is a life director of Calgary Exhibition and Stampede Board. As one of Canada's leading livestock breeders, he has served on the executives of the Canadian Swine Breeders' Association, the Alberta Cattle and Sheep Breeders' Association and the Southern Egg and Poultry Producers' Association. He is also a director of Canada Permanent Mortgage Corporation and Canada Permanent Trust Company, a director and on the executive of Home Oil Co. Ltd., director of Canada Studies Foundation and a director of Care Canada.

G. Lyall Roper of Edmonton, is President of Roper Holdings Ltd., Commercial Printers (Calgary) Ltd., and Plastic Platemakers Ltd. Until 1970, he was President and General Manager of Commercial Printers Ltd. Mr. Roper is a past President of the Edmonton Chamber of Commerce, Chairman of the United Community Fund, and member of the Board of Governors, University of Alberta. He is currently serving as a director of the Edmonton Exhibition Association Limited.

OFFICERS

THE HON. C. C. McLAURIN, Q.C., LL.D.
Chairman of the Board

CHARLES G. SMITH, Q.C.
President and Chief Executive Officer

NORMAN STEINBERG
Executive Vice-President

J. BRIAN RENTON, P.Eng.
Vice-President, Development
and Construction

LYLE J. WILSON, C.A.
Secretary-Treasurer

HEAD OFFICE

800 Sovereign Heights
1039 - 17th Avenue S.W.,
Calgary, Alberta T2T 0B1
Phone: (403) 245-5571

SUBSIDIARIES:

Paragon Properties (Northern)
Limited
Paragon Properties (Quebec) Limited
Paragon Homes Limited
Paragon Leaseholds Limited

STOCK TRANSFER AGENT

THE ROYAL TRUST COMPANY
Calgary - Toronto

STOCK LISTED (PGP)

TORONTO STOCK EXCHANGE

DEBENTURE TRANSFER AGENT

MONTREAL TRUST COMPANY
Calgary, Alberta

